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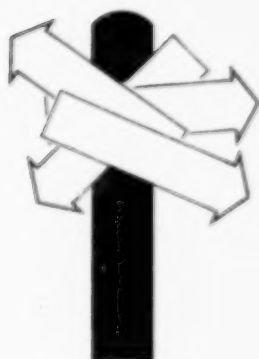
ABSTRACT

In October 1971, the Academy for Educational Development entered into a contract with the Council on Higher Education of the State of Washington to prepare an analysis with recommendations on the financing of postsecondary education in Washington. The resulting pamphlet is divided into 5 chapters: (1) Higher Education for Whose Benefit? (2) Pricing Policies and the Subsidy of Students; (3) Current Practices in State Financing; (4) Student Loans; and (5) Options for State Governments. Some of the conclusions of the study include: (1) There is general agreement that both society and student benefit from higher educational expenditures, but there is no known theoretical or practical basis for determining a particular cost/benefit ratio for society or for student; (2) In arriving at a distribution of costs between student and state taxpayers, state governments are compelled to make practical judgments between cost needs and available income; and (3) In some states, there have been proposals to alter substantially state pricing policy for public higher education by increasing the charges, with corresponding increases in student financial assistance. (HS)

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STATE
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OF
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U.S. DEPARTMENT OF HEALTH,
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MANAGEMENT DIVISION
ACADEMY FOR EDUCATIONAL DEVELOPMENT

February, 1973

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**ALTERNATIVES
IN
STATE GOVERNMENT FINANCING
OF
HIGHER EDUCATION**

A Condensed and Revised Version
of a Special Report by
The Academy for Educational Development
Prepared for
The Council on Higher Education
State of Washington

Management Division
Academy for Educational Development, Inc.

February, 1973

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PREFACE

In October, 1971, the Academy for Educational Development entered into a contract with the Council on Higher Education of the State of Washington to prepare an analysis with recommendations on the financing of post-secondary education in Washington. The resulting report was transmitted to the Council for its use in September, 1972.

The project administrator was Robert R. Hind, an Academy director. Mr. Hind was assisted by staff associates Richard A. Dent, James R. Glenn, and Kurt D. Moses, and a consultant panel which included William B. Cannon, Vice President, the University of Chicago; Earl F. Cheit of the University of California, Berkeley; Joseph A. Kershaw, Provost, Williams College; and myself.

In preparing this report for the Council on Higher Education, State of Washington, the Academy thought it appropriate to review the experience of other state governments in the financing of higher education and to provide a general analytical framework for the policy choices which confront state governments in resolving issues about the support of public institutions of higher education. With this information by way of background and within this analytical framework, the Academy then proceeded to set forth specific data about the current financing situation in Washington and to outline alternative courses of action with their attendant costs.

The Management Division of the Academy for Educational Development, supported primarily by a grant from the W.K. Kellogg Foundation, is publishing this edited version of the report for the Council on Higher Education of the State of Washington. All of the specific data and the recommendations for the use of the Council have been omitted.

It was the judgment of John D. Millett, former Chancellor of the Ohio Board of Regents and now Vice President of the Academy for Educational Development and Director of the Academy's Management Division, that the general background of this Washington report and its analytical framework provide valuable information for state university officials, state government administrative officials, and state legislators. He has accordingly prepared this edited version of the report of the Academy for Educational Development to the Council on Higher Education, State of Washington, which we are pleased to issue for general distribution and use.

The report as presented here undertakes to outline the major issues confronting governors and state legislatures as they consider the appropriation requests for support of public higher education in 1973. These issues are:

1. Who benefits from higher educational expenditures for instruction—the student or society—and in what proportion?
2. Since the prevailing practice in the fifty states is that of joint payment by student and by state taxpayer, how shall the distribution of this joint payment be determined?
3. Does a low tuition charge to students actually equalize educational opportunity among students from various levels of family income?
4. Is a direct form of student financial assistance desirable in order to provide higher educational opportunity to students from lower income families, regardless of pricing policy?
5. Does a low charge pricing policy for public higher education threaten the continued existence of private higher education?
6. If student financial assistance is to be provided, what are the relative roles of federal and state governments in offering such assistance, and what are the relative roles of student grants, student work-study, direct loans, guaranteed loans, and income contingent loans?

The report, prepared by the Academy for Educational Development, responded to these questions by providing information about the theoretical discussion of these issues and about the actual practice and proposals in several of the fifty states. This review offers the following conclusions:

1. There is general agreement that both society and student benefit from higher educational expenditures, but there is no known theoretical or practical basis for determining a particular cost/benefit ratio for society or for student.
2. In arriving at a distribution of costs between student and state taxpayers, state governments are compelled to make practical judgments between cost needs and available income.
3. The prevailing tradition of state governments has been to maintain relatively low charges at public colleges and universities for the purpose of providing a broad access to higher education. The effectiveness and desirability of this policy have come under criticism for several reasons:
 - a. a realization that low charges by themselves do not reduce or eliminate the economic barrier to higher education for students from low income families;
 - b. some evidence that the principal beneficiaries of the low pricing policy are students from families above the median family income;

- c. concern that low pricing encourages students from higher income families to enroll in public rather than private institutions of higher education; and
 - d. concern about the rising costs of public higher education to the state taxpayer.
4. Because of these criticisms, several state governments have undertaken student financial assistance programs and programs of grants to private institutions of higher education.
 5. In some states, there have been proposals to alter substantially state pricing policy for public higher education by increasing the charges, with *corresponding increases in student financial assistance*.
 6. Federal government policy since 1945, in providing higher education assistance other than that in the fields of research, public service, and capital improvements, has tended to favor financial assistance to students rather than assistance to institutions. If state governments are to benefit from these federal programs, they have to increase the charges to students.
 7. Student financial assistance may take numerous forms: scholarships, grants, work-study, loans. For students from families below the median income in the United States, grants are the essential form of student financial assistance. For students from middle income families, loans, including particularly the income contingent loan, offer a method of meeting the personal costs of higher education.
 8. The possibility of variable pricing of public higher education deserves more extensive consideration than it has received up to this time:
 - a. a relatively low charge for the first two years of higher education enrollment;
 - b. a higher charge for upper division enrollment in baccalaureate programs; and
 - c. a still higher charge for graduate and graduate professional enrollment.

This booklet is presented as part of the Academy's Management Division program which seeks to provide information looking to the improved governance, organization and administration of institutions of higher education in the United States.

Alvin C. Eurich
President

HIGHER EDUCATION FOR WHOSE BENEFIT?

One would hope that those who bear the costs would benefit. The operation of a college or university does cost money. These costs vary: there are the costs of instruction, of sponsored research, of public service projects and programs, of auxiliary services, and of student financial aid. To this list may be added the cost of central management and support services and the cost of plant improvements. And there are other costs. For students, there are the real costs of tuition, books, and other expenses. For society, there are not only the costs of taxes and gifts, but, also, the indirect costs of foregone gross national product and of tax income which might be available if all students were employed in the labor force. Students also suffer the loss of foregone income, earnings they might be receiving if they were not in school. In an economy where jobs are limited, however, there may not be extensive opportunity to earn income. If all higher education students were to enter the labor force, some might replace existing workers, and the social costs of unemployment benefits and of welfare would mount.

(One could argue that the income foregone by students is in the nature of savings and investment, since the time and energy devoted to higher education prepare young persons for essential jobs in society which later provide substantial personal income. For some students this proposition may be true, but it overlooks the fact that young people from families of low income are in no economic position to indulge in the savings and investment of higher education.)

If the costs of higher education, including the indirect costs to students and to society, are to be justified in our economy, there must be a corresponding benefit to be gained by student and by society. Cost-benefit analysis is not an exact science; it is not a process which can yield definite or fixed values in every situation. Cost-benefit analysis can be applied in a market economy, where the price a consumer is willing to pay represents the benefit attributable to the consumer and where the price a producer is willing to accept represents the cost and return on investment. In some kinds of public services, as in the construction of certain public works projects, cost-benefit analysis is also possible. Costs can be estimated with reasonable certainty, and the benefits can be determined in terms of improved flood control, transportation, conservation of resources, recreational facilities, etc.

Under these circumstances, cost-benefit analysis may provide very little data of use to those who must make decisions about the costs and financing of higher education. It is relatively easy to analyze the costs of the various activities or programs of a college or university. The inputs in terms of personal services, supplies, equipment, plant operation and maintenance, and other costs are known. We also can identify the outputs in terms of credit hours of instruction, degrees granted, research projects completed, patients treated, museum visitors accommodated, etc. But how does one put a dollar value upon these benefits? There is no known, reliable way to do so. What is the value of an educated citizenry? What is the value of an educated business manager? What is the value of an educated doctor? What is the value of a research project? What is the value of a museum, an art gallery, a theatrical performance, a symphony concert?

If we could come to some agreement about who benefits from the activities of higher education, and to what extent, we would have a rational basis for allocating costs among these beneficiaries. Since it is difficult to quantify many of the outputs and impossible to place dollar values upon them, it is not surprising to find that serious and highly qualified analysts reach quite different conclusions. It may be useful to review some of the positions taken by influential writers on this subject.

Professor Milton Friedman, prominent economist of the University of Chicago, sees students as the primary, even exclusive beneficiaries of higher education. He asserts that the increased lifetime earnings of the college and university graduate are the major and quantifiable output of higher education. Although he acknowledges that there are benefits to society in education, he argues that these occur primarily at the pre-college level. Concluding that individual benefits from education increase at succeeding levels of study, he insists that students should pay the full cost of their higher education out of current resources or out of their future income through loans.

Professor Theodore Schultz, another University of Chicago economist, concurs with Friedman in believing that future earnings of the graduate represent the output of higher education as an investment in human capital. He believes that decisions about the quantity and quality of higher education endeavors should be made in terms of the needs for human capital.

There are other economists who view society rather than the individual as the primary beneficiary of higher education. One member of this school is Howard Bowen of the Claremont Graduate Center, who points to the "vast social benefits" of higher education and advocates heavy public subsidy of higher education as a socially needed outlay. He argues that the student pays more for higher education than is ordinarily understood because of the income from employment foregone by that student. Upon the basis of this income loss, Bowen insists that, even at the low-tuition public college or university, the student is paying three fourths of the cost of higher education. If the student is willing to make this sacrifice, society

should be willing to provide the direct cost of instruction for the student, particularly since society benefits so substantially from the services performed by the higher education graduate.

M.M. Chambers, a well-known scholar in the field of higher education, who is currently based at Illinois State University, looks upon the social expenditure for higher education as an extension of the Jeffersonian ideal of free public education. He sees higher education as providing benefits to every citizen and as too important a matter to be left "to the vagaries of an unregulated private pricing system." He therefore urges that higher education be financed through an equitable system of taxation.

Alice Rivlin—formerly an assistant secretary of Health, Education, and Welfare and currently an economist at the Brookings Institution—has been particularly concerned with the benefits realized through federal government financing. She has stressed the income benefits and usefulness which result when students from low-income families are provided access to higher education. She argues for federal subsidies which will have the effect of lowering the costs of higher education for these students.

A different conclusion was reached by two University of Wisconsin economists, W. Lee Hansen and Burton Weisbrod, who made a limited cost-benefit study of public higher education in California. Confining their analysis to factors which could be quantified—higher education costs, the increase in lifetime earnings of students, future tax revenues resulting from these increases, and current tax payments by income levels—Hansen and Weisbrod found that the state subsidy of higher education was three to five times greater than the anticipated increase in taxes to be paid by college students. Whether or not the state government was receiving some other benefit from its expenditures for higher education was left to the judgment of state planners and lawmakers.

A second conclusion was derived from an analysis of the benefits accruing to students from various economic groups. Hansen and Weisbrod found that the public subsidies for higher education were directed primarily to students from higher income families, since most of the students enrolled in the public universities came from such families. They declared that the low tuition charges of public higher education and the high state subsidy of this education benefited higher income families rather than the public at large. A similar argument was made recently by a Harvard research scholar, Christopher Jencks, in his book *Inequality*.

The method of analysis used by Hansen and Weisbrod has been criticized, especially in a study by Joseph Pechman of the Brookings Institution, who took issue with their evaluation of the taxpaying population. But the argument that students from higher income families are the major beneficiaries of state government financing of higher education is not seriously questioned and has also been set forth in a Florida study by B.W. Windham, economist at the University of North Carolina.

Although there are many additional studies which might be cited here, the conclusions are simply variations of the positions just summarized. It

is evident that scholars are in disagreement about the individual and social benefits provided by higher education, especially public higher education, and that there is no agreement about the means of identifying or quantifying the social benefits. We are left with certain general propositions to which most persons concerned about the financing of higher education would subscribe.

1. There clearly are social benefits derived from higher education, including the provision of educated talent which serves all people, the advancement of knowledge, public service, and the preservation of an intellectual heritage.
2. There are individual benefits from higher education which are usually quantified in terms of the higher incomes in American society earned by college graduates. Some persons tend to earn more than other beneficiaries of higher education: doctors, dentists, lawyers, engineers, business administrators, or government administrators, in contrast with scholars in the humanities and the social sciences and practitioners in the arts.

PRICING POLICIES AND THE SUBSIDY OF STUDENTS

A review of various studies, reports, and recommendations affecting the financing of public higher education reveals that there are three basic models or alternatives for public policy. These are:

1. Low or no tuition pricing, with substantial or full instructional cost financing by state governments.
2. Full instructional cost pricing to students, with no financing of instructional expenditures by state governments.
3. A middle position or conglomerate model which may veer either toward low tuition pricing or toward higher tuition pricing.

These models underline the issue of a public subsidy to certain students in a substantial amount in preference to a public subsidy of all students in a lesser amount. The subject of pricing policy thus cannot be properly separated from the subject of student financial aid.

The Low or No Tuition Model

Proponents of the position that society is the primary beneficiary of post-secondary education favor a low tuition charge to all students and substantial state government support of the instructional costs of public colleges and universities. A policy of such pricing and subsidy has been the traditional pattern of public higher education in the United States. This policy is a legacy from an earlier time when free public higher education was expected to provide access to higher education for all youth of lower income families in this country who had the ability and were motivated to undertake higher education.

The extreme policy position would be zero tuition for every student enrolled, as is true for public elementary and secondary education. Some would even argue that higher education is not really free to the students until their subsidies include the costs of books, clothing, living expenses, and even foregone income. This kind of subsidy is provided in this country to the students enrolled in the military academies; it is also practiced in certain foreign countries, including the U.S.S.R.

As a practical matter, however, zero tuition is a thing of the past. The only major post-secondary systems of higher education making no general

charge for instructional service are the California Community College System and the City University of New York. State colleges and universities generally have come to rely upon student charges as an important, although still relatively minor source of instructional income. This income is not likely to be replaced by increased appropriations from tax funds.

The level of student charges at public four-year colleges and universities currently ranges from about 15 percent to about 35 percent of total instructional expenditures, including instructional overhead. Community colleges generally receive about 10 to 20 percent of their instructional costs from student charges, although there are some situations in the midwestern states where as much as 50 percent of the cost is obtained from charges to students.

The primary purpose of the low tuition pricing policy is to maximize enrollment in higher education of students from all socio-economic classes, thus meeting demands for an increased supply of educated talent and encouraging social mobility for able young people from lower income families. Low tuition has considerable popular appeal, and the public and student outcry at each increase in the charges of public colleges and universities occasions considerable stress in the body politic and in the academic community.

Two forces have brought the no or low tuition model under attack. One has been the continued demand by public institutions of higher education for more income, accompanied by a growing reluctance upon the part of state legislators to increase taxes in order to meet this demand. The other force has been the growing realization that costs *other than* tuition are the major economic barrier to higher education for students from lower income families.

The state policy of providing an instructional subsidy across the board to every student enrolled in public higher education tends primarily to benefit students from families above the median family income in this country. Low tuition pricing has been somewhat successful in this sector, despite economic forces working against it. Moreover, the costs to state government of a direct instructional subsidy may have inhibited state governments from adopting adequate student aid programs which would reach students from lower income families. The low tuition model also places private colleges and universities at a competitive disadvantage in maintaining or expanding their enrollment. The plight of private higher education then leads to demands for state governments to increase their expenditures for higher education by providing a "tuition equalization" grant to all students in these institutions.

In practice, there is considerable experience in all public colleges and universities which suggests that the low tuition model of state government pricing does not equalize access to higher education for students from lower income families. A program of direct student financial assistance is still required in order to encourage enrollment of lower income students. An appreciation of this fact is acknowledged by the expenditures which

public institutions of higher education make from their own general funds for student aid.

Full-Cost Pricing

At the opposite extreme from the no tuition price policy is the full-cost price policy. This position appeals to those who view students as the major beneficiaries of post-secondary education. Here, we assume that the full-cost pricing model would mean that all students would pay the average cost of instruction of the public institution where enrolled. The cost of depreciation or amortization of capital facilities would be included in this instructional charge. This policy would approach that of private institutions, although even private colleges and universities generally cannot full-cost their services, but must rely heavily upon endowment and gift income.

Without a massive student financial aid program, full-cost pricing would have a disastrous effect upon access to higher education and upon enrollments. Many if not all students from lower income and middle income families would be forced out of the system. In addition, this policy, in its assumption that society need not share the cost of higher education, does therefore not recognize the significance of the benefits society may receive from higher education.

For these reasons, serious proponents of full-cost pricing couple the proposal with a program for substantial student aid, awarded upon the basis of need. Need would be determined by one of the existing mechanisms which objectively assess the expenses of higher education enrollment to the student, the resources for meeting these expenses available to the student and his family, and then fix the difference as the student aid entitlement. It is imperative, of course, that student aid be awarded in the full amount needed if access to higher education is not to be hampered.

Under the full-cost pricing model, a state government's entire contribution to the costs of instruction (as distinct from other costs) would be in the form of student financial assistance. Establishing the appropriate charges and student aid budgets would be a matter for negotiation between the state government and the institution. It is possible that such a process might enhance institutional autonomy. But the possible reduction in state government controls over public institutions would probably be offset by increased demands on the part of students that institutions be more responsive to their needs and interests.

Among other advantages claimed for full-cost pricing is the increased incentive on the part of students to become seriously involved in their educational process. If students are asked to pay the full cost of their higher education, either from their own funds or from student aid funds, they are likely to demand more from their instruction; at least, that is one supposition. Furthermore, full-cost pricing would reduce or eliminate the price competition between public and private higher education. Private higher education would then be strengthened and the pluralism of Ameri-

can higher education preserved. The student receiving financial assistance would have freedom of choice in selecting a public or private institution in which to enroll.

No doubt, any proposal for full-cost pricing would produce considerable public and student opposition. Students from families with incomes above \$20,000 a year would probably suffer very little. Students from families with incomes between \$10,000 and \$20,000 might face real hardship. A new needy class could result. Much would depend upon the type and magnitude of the student aid program adopted by a state government.

There is a complication involved in averaging the full cost of instruction in a four-year public general college as contrasted with a public comprehensive university and a public research university. It is not necessary to consider this complication here. Indeed, it seems likely that full-cost pricing would enable public institutions to increase their instructional income and improve their instructional quality.

The Conglomerate Model

As noted earlier, most state governments have adopted a position between the two extremes. The cost of instruction is covered in part by state appropriations and in part by tuition charges to students. The public institutions thus confront the advantages and the disadvantages to some extent in both the other models, the low tuition model and the full-cost pricing model.

Since most state colleges and universities at one time charged little or no tuition and have increased their charges over the past twenty-five years or so, one might look upon the conglomerate model as transitional. Whether or not state systems of higher education will continue to move toward full-cost pricing remains to be seen. For the present, the conglomerate model is the prevalent arrangement, and it may well continue to be the arrangement for many years to come as state governments struggle with their efforts to provide higher education for three quarters or four fifths of all American post-secondary students.

The conglomerate model manages to straddle the benefits issue. If post-secondary education benefits both society and students, then it seems appropriate that both beneficiaries should pay the cost. Perhaps the strongest argument for the conglomerate model is that it is in widespread use and that it works, albeit somewhat imperfectly. It lends itself to change as needs vary or as shortcomings appear. If access is found to be available primarily to students from higher income families, then a direct student aid program under state government auspices can be introduced or expanded to redress the balance. If the state government's resources for post-secondary education fail to keep pace with rising cost needs, more of the burden can be passed to users and more of the student aid shifted to loans.

Without question, federal government policies in the higher education field have encouraged the development of the conglomerate model. The

so-called G.I. Bill of Rights of 1944 not only encouraged the veterans of World War II to undertake higher education, but also it encouraged state institutions of higher education to increase their tuition charges or lose federal government income. The student loan program of the National Defense Education Act of 1958 was a first step in providing students of lower income families with a means of meeting their direct costs of higher education, including the tuition charge. The Higher Education Act of 1965 introduced educational opportunity grants (EOG) for students from lower income families. The Education Amendments of 1972 further extended the EOG program by providing basic grants up to \$1,400 per student based upon need, plus up to \$800 more for disadvantaged students.

State governments and state institutions of higher education cannot enjoy the full potential benefit of these federal funds, if they are appropriated in the authorized amounts, without increasing their tuition charges to all students.

Variable Pricing

A modification of both the full-cost pricing model and the conglomerate model is variable pricing. In this arrangement, students are charged different tuition amounts, depending upon the level of study or the program of study in which they are enrolled. There is a noticeable trend in many states to move toward variable pricing where graduate tuition is fixed at a higher level than undergraduate tuition, or where tuition is higher in a professional field like medicine than in another professional field such as business administration.

Variable pricing can be justified for three reasons. It is well known that the costs of instruction differ according to level and according to field of study. The pricing policy then, it is argued, should reflect these differences in costs. Secondly, it is well known that lifetime earnings are higher for graduates in certain professional fields of study such as medicine, dentistry, and law. Students who have the advantage of admission to these programs—and not all applicants are admitted—should be willing to pay more for the special privilege and the prospective income thus afforded them. In the third place, variable pricing has been used on occasion to encourage students to enter fields where there are shortages of educated talent; in this instance, the prices are reduced or some special arrangement is made to underwrite the direct costs of students.

The pricing of every individual instructional program in some fixed relationship to its costs does not seem to be entirely desirable as public policy. Only students from families of higher incomes might enroll in the higher priced programs. Students from lower income families might tend to enroll in the lower priced programs. This kind of distribution of enrollment might well interfere with both the individual and the social benefits to be derived from higher education. Some kind of averaging of prices in relation to costs seems desirable, though, such as one price for lower

division enrollment, another price for upper division enrollment, another price for graduate enrollment, and perhaps still another price for graduate professional enrollment.

There is another argument which can be advanced in favor of variable pricing. The studies of earnings for those persons who have benefited from higher education tend to indicate that earnings are a function of degrees obtained. It is the possession of a degree, not just college attendance, which serves as a credential for employment in the world of work.

Persistence and completion ratios for students entering post-secondary education follow a well-known pattern. Most dropouts of students occur in the first two years. Once a student enters the third year of a college education, the odds in favor of his or her persistence to a baccalaureate are quite high. Similarly, for students who gain access to graduate and graduate professional education, the chances of persistence to receipt of a degree are good; in some fields, such as medicine, the proportion of entering students obtaining the degree is very high indeed.

The risk to students in not completing an instructional program is therefore concentrated in the early period of study. Concomitantly, the probability of no private return for the educational investment is heaviest at the entry level of higher education. Accordingly, there may be sound reasons for keeping student charges low during the first two years and for raising these charges in later years as the likelihood of personal benefit increases.

The objective of equal access to higher education for students of different socio-economic status is also served by variable pricing. A lower price charge to students in the first two years means that low income, disadvantaged, and high risk students do not perceive price as a barrier to higher education.

Variable pricing by level of study can also have an important effect upon the efficiency of public higher education. Variable prices may encourage administrators, faculty members, and students to be more conscious of the costs of various instructional programs. As class size becomes smaller, as a higher and higher level of faculty competence is essential, as more and more instruction becomes highly individualized, as more equipment is required for specialized instruction, then instructional costs rise. But the cause of efficiency in higher education would be served by forcing attention upon these costs so that they do not become frozen in practice by faculty complacency or convenience.

Channeling of Instructional Subsidies

The issue of directing state appropriations to institutions or to students is actually a variation upon the theme of no or low-cost tuition versus full-cost pricing. Some persons concerned especially about the future of privately sponsored colleges and universities argue that state governments should subsidize students rather than institutions. Each student should

then be permitted to select the institution in which he or she wishes to enroll.

Proponents of the student subsidy approach to higher education financing also argue that this arrangement will advance equality of opportunity by drawing more students from lower income families. State funds would go to the student who needs them rather than to all students regardless of their socio-economic status. When state governments undertake to subsidize all students in public institutions, the costs are so great today that state governments inevitably start looking for alternative arrangements. The channeling of state funds to students on a needs basis, it is argued, would reduce the state government burden for higher education.

Proponents of institutional channeling, on the other hand, would provide state funds directly to the colleges and universities, for the improvement of the quantity and quality of the higher education offered. They feel that this channeling is more responsive to sudden changes or needs, that institutions could immediately switch their priorities, if the necessity arose, without depending entirely upon student enrollment patterns or tuition income. In addition, colleges and universities experiencing financial difficulties would have needed assistance.

This issue about channeling funds to students as opposed to channeling them to institutions was also vigorously debated in the federal government during consideration of the 1972 education legislation. The Education Amendments of 1972, approved June 23, 1972, emphasize funding for students rather than for institutions, with the compromise of some funds for institutions.

Student Aid

The extent and nature of student aid programs are an integral part of state government financial planning for post-secondary education. If a state government is committed to a low tuition model in financing its institutions of higher education, it must still inquire into the extent to which this pricing policy may block access to higher education for students from lower income families. If a state government is truly committed to equality of educational opportunity, then the state must decide how much it is willing to spend in student aid funds to draw a representative number of low income students into the system.

As a state government proceeds to increase the charges to students, then it is absolutely essential that student aid be considered as a central element of financing policy. The state subsidy for higher education will then become increasingly a subsidy of students rather than of institutions.

The most damage to the cause of equality of educational opportunity which can occur in a state is a gradual drift toward full-cost pricing *without* a comprehensive plan, including student aid. In one state after another a common story has been told. Higher education institutions request more money. State tax resources are strained to meet state government needs, and taxpayers are reluctant to pay more taxes. The way out for public higher education is to increase charges to students. Then the institutions

and the state government, as an afterthought, get around to worrying about student aid, and the amount appropriated for this purpose is inevitably inadequate.

There are various possible kinds of student aid arrangements. The major ones are:

1. Tax Credits
2. Grants and Scholarships
3. Work-Study
4. Loans

Tax Credits. With this arrangement, the family of a college student would be permitted to deduct tuition cost or even total educational cost from its income tax liability. This kind of an arrangement has been considered at the federal government level and in several states. It has been advocated by a number of spokesmen for private institutions of higher education. The difficulty with this tax credit proposal is that it provides a subsidy primarily to higher income families rather than to lower income families.

Grants and Scholarships. Scholarships are usually awarded on the basis of academic merit; grants are usually awarded on the basis of individual student need. Scholarships tend to go to students from families of higher income, and, unless there is a needs provision attached to the scholarship award, the funds may well go to students whose families can afford to meet the costs of higher education. For this reason, more and more states in recent years have moved toward grant programs. The most important feature of the grant is that it is a direct subsidy to assist a promising student from a low income family. The grant is not a loan; it does not have to be repaid.

In a number of states there is discussion of a student grant in the form of a voucher. This voucher, issued by an agency of state government to an individual student, would be acceptable in payment of tuition at any public or private institution in the state. Regardless of the tuition charge of the particular institution where the student might enroll, the state would then redeem this voucher at the price fixed by the institution. Presumably, vouchers would be issued on a needs basis. This voucher plan seems to offer the greatest degree of freedom of choice to a student from a lower income family in selecting an institution in which to enroll.

Work-Study. Colleges and universities have long provided part-time employment to students as a means of assisting them to meet their direct costs of higher education. Through the Higher Education Act of 1965, the federal government provided funds to institutions to encourage them to hire more student help. Only Colorado currently operates a substantial work-study plan financed with state funds. The limitation to a work study program is twofold. The number of hours a student should work must be related to his or her academic circumstances rather than to his or her financial circumstances. And the number of students an institution can reasonably and effectively employ is limited.

Loans. The principal advantage to state government in a loan program is that it can reduce current expenditures for higher education. A loan to a student must be repaid, and presumably loan funds can be borrowed rather than taken from current tax resources. As charges to students are increased, a loan program is particularly helpful to students from families in middle income levels. Such students may not qualify for grants on a need basis, and, yet, their families may have difficulty in meeting the rising costs of higher education. A loan program can help to meet this kind of situation.

CURRENT PRACTICES IN STATE FINANCING

Each of the fifty states in the United States has devised its own plan for financing post-secondary education. A wide variety of patterns has evolved, influenced by each state's history, geography, economy, and tradition. The evolution of these diverse financing arrangements resulted in large part from the absence of any centralized state governmental planning until relatively recently. A tendency toward some degree of similarity may be noted as central planning develops, as states emulate the successful efforts of other states, and as states respond to federal government legislation in the field of post-secondary education.

It is not feasible here to try to review the current practices in state government financing of post-secondary education in each one of the fifty states. Rather, several different patterns will be reviewed to illustrate the variety of these current practices.

Colorado and California

Whereas, in the northeastern part of the United States, higher education for many years meant primarily higher education in privately sponsored colleges and universities, higher education in the western half of the United States developed in a different pattern. The experience in Colorado and California is illustrative.

Colorado public institutions of post-secondary education enroll about 86 percent of the some 100,000 full-time equivalent higher education students in that state (exclusive of the U.S. Air Force Academy). There are seven private colleges and universities in the state. The public system includes eight four-year institutions under four different boards and twelve community colleges, six of which operate under a statewide board and six which operate under local boards receiving a state subsidy.

The tuition charge in the public institutions is fixed by state government policy at 25 percent of the estimated average instructional cost per full-time student for residents of Colorado. In 1971-72, the tuition charge varied from \$318 to \$566 for an academic year. Since Colorado has attracted a considerable number of students from outside the state, it is not surprising to find that Colorado was among the first states to set the tuition charge to out-of-state students at the full average per student cost of instruction. The budgets of Colorado's public institutions of higher education are determined upon the basis of staffing guidelines applied to enrollment estimates, adjusted in the light of special needs, and subjected to detailed legislative scrutiny. Until recently, low tuition charges, along

with tuition waivers in certain cases, were the only form of financial assistance to students. A need-based student grant program and a state work-study program will channel some 9.2 million dollars directly to students in public institutions in 1972-73. This amount is about 8 percent of the state's appropriation for post-secondary education. No state government funds are currently provided to private institutions or to their students.

The California public system of higher education enrolled some 740,000 full-time equivalent students in 1970-71, more than twice as many students as are enrolled in public institutions in any other state. Moreover, this public enrollment was 88 percent of the total enrollment in California. The total state government appropriation for higher education came to 817 million dollars that year, and, yet, on a per student basis, California ranked nineteenth nationwide in its support of post-secondary education.

California has endeavored to maintain a low or no tuition charge for students, with no tuition charge at community colleges, a charge of \$160 per academic year in the state college system (now the California State University and College System), and a charge of \$600 at the University of California.

The California student financial aid program is administered by a State Scholarship Commission, which channels funds with which to pay tuition charges to students in both public and private institutions. The total outlay of the Commission was 15.5 million dollars in 1970-71, only 1.9 percent of the total state appropriation for post-secondary education. The proportion was expected to rise to 3.1 percent in 1972-73.

Budgets are prepared by each of the public systems and are appropriated as lump sums for the nine campuses of the University of California and the nineteen campuses of the California State University and College System. The community colleges, which obtain 70 percent of their operating income from local district taxation, receive state assistance based upon an average daily attendance formula, a legacy of the time when these colleges were considered extensions of K-12 schooling. Capital outlays for higher education are provided on a case-by-case basis.

State government support for private institutions in California is minor and indirect, since direct state assistance is believed to be prohibited by the state constitution. State assistance includes a means whereby property needed for campus expansion can be acquired through public condemnation proceedings, exemption from the general property tax, and state income tax deductions for gifts to higher education. Students in private institutions are eligible to receive state scholarships, and over 80 percent of the scholarship funds do, in practice, go to students enrolled in private institutions.

New York and Pennsylvania

New York State has the second largest public system of post-secondary education in the United States, having enrolled some 330,000 full-time

equivalent students in 1970-71. At the same time, in that year, private institutions enrolled 44 percent of the students attending colleges and universities in New York. The public system consists of two parts, the State University of New York and the City University of New York. The State University, still young, was created in 1948, although there had been a system of teachers colleges in existence under the New York Board of Regents for many years.

New York has led the way in confronting the problems shared by other states of the Northeast where private institutions of higher education have so long dominated the educational scene. New York's solution to these problems has been innovative and complex. A first step was the establishment of the State University of New York in 1948, as a multi-campus institution created in recognition of the fact that private institutions had not been able to expand sufficiently to accommodate the "veteran's bulge" in enrollments and in expectation of the fact that higher education enrollments would expand during the 1950's and 1960's. Another part of the solution has been the expenditure of large sums of money; in 1970-71, state and local appropriations for post-secondary education per student came to \$2,718, second only to the appropriations of the State of Alaska, with its unique circumstances.

These funds for higher education have been committed in three areas: direct support of the State University and the City University, financial assistance directly to private institutions, and financial assistance directly to students. These last two programs are administered by the New York Board of Regents. In 1970-71, the State University of New York and the community colleges under its supervision received 526 million dollars in state support and enrolled approximately 250,000 students. The City University of New York received 86 million dollars and had an enrollment of nearly 75,000 students. In addition, the state appropriated 120 million dollars for capital improvements.

Since 1969, the State of New York has provided direct financial support to non-sectarian private colleges and universities under the so-called "Bundy Law." Under this law, each eligible private institution receives \$400 for every baccalaureate and master's degree awarded, and \$2,400 for every doctoral degree awarded. In 1971-72, this program cost the state approximately 30 million dollars. Although there has been discussion of revising the law to change the formula or to base subsidy upon enrollment, no amendments were enacted as of 1972. (In addition, New York provided about 20 million dollars in financial aid to private medical schools and certain technical programs.)

New York operates a number of student aid programs for the benefit of New York residents. The Regents Scholarship Program, based upon test results and need, provides up to a maximum of \$1,000 toward tuition costs at a public or private institution; the Scholar Incentive Award, based entirely upon need, provides up to a maximum of \$600 for the same purpose. These two programs cost nearly 70 million dollars in 1971-72. In

addition, New York has introduced a Higher Education Opportunities Program and a special opportunities program (SEEK) designed to provide more comprehensive financial assistance to those students from low-income families and with major educational disadvantages. These programs cost around 31 million dollars in 1971-72.

The third largest state in the United States, Pennsylvania, has experienced about the same public-private enrollment mix as has New York. Pennsylvania is different from other states in that a substantial proportion of its expenditures for higher education is directed to students. The state has not been committed to a low tuition policy, and, on a per capita expenditure basis, Pennsylvania has ranked 46th in the nation. Many of the programs in Pennsylvania are unique to the state.

The public system of higher education in Pennsylvania consists of the Pennsylvania State University with several branch campuses and a state college system of fourteen campuses. In addition, there were, as of early 1972, some fifteen public community colleges receiving both state and local tax support. The tuition charge at Penn State and the state colleges was relatively high, over \$700 an academic year.

In 1965, three private universities—Temple, Pennsylvania, and Pittsburgh—were declared by state law to be state-related universities. In 1970-71, they received over 150 million dollars in direct state financial assistance. In addition, another 14 private institutions have been designated as state-aided institutions; they received over 22 million dollars in direct assistance. Other private institutions have received occasional grants of state funds, usually for capital improvements.

In 1965, Pennsylvania also initiated its Higher Education Assistance Authority. Grants and loans have been provided upon the basis of need to Pennsylvania students enrolled in the state and out-of-state. In 1970-71, the Authority provided nearly 51 million dollars in grants, of which 8.5 million dollars were awarded to students enrolling in out-of-state institutions. The entire state student aid program amounted to nearly 15 percent of the total state appropriations in support of post-secondary education.

Finally, Pennsylvania has maintained a special fund for grants to institutions to assist them in matching the requirements of federal programs. Approximately two million dollars were spent from this fund during 1970-71, almost all of it matching the requirements for grants under the federal work-study program.

Illinois

The fifth most populous state in the United States in 1970, Illinois ranked third in the United States in combined state and local appropriations per student (\$2,457). The state has been committed to developing a comprehensive, quality higher education system, which includes private as well as public institutions. The private colleges and universities of Illinois have enrolled about 30 percent of the students in the state.

Illinois has a state system of multi-campus institutions: the University of Illinois (three campuses), Southern Illinois University (two campuses),

the Board of Regents (three institutions), the Board of Governors (four institutions), and the Illinois Junior College Board (34 junior and community colleges). The state budget is prepared in the first instance by the Illinois Board of Higher Education. Appropriations have been based upon a program formula. As appropriations stabilize, student tuition charges tend to rise. State direct institutional support was over 400 million dollars in 1972-73.

Illinois also provides direct grants to private institutions, \$100 for each freshman or sophomore Illinois scholarship winner and \$200 for each junior or senior Illinois resident. The program cost about 6 million dollars in 1971-72. In addition, Illinois provided over 20 million dollars in financial assistance to the private medical schools of Northwestern University and the University of Chicago.

The Illinois student aid program includes both scholarships and grants from \$150 to \$1,200, but they are applicable only to tuition charges. The program is expected to cost around 51 million dollars in 1972-73, with 65 percent of the amount going to students enrolled in private colleges and universities. Another form of student aid is the waiver of tuition for students in state institutions who enroll in programs of critical occupational shortage, such as nursing. This program cost over 23 million dollars in 1971-72, but it was to be reduced in 1972-73.

Indiana: Tax Credits

In Indiana, 30 percent of the 158,000 students enrolled in the state attend private institutions. As a partial aid to these institutions, a tax credit plan was enacted into law in 1969, permitting individuals to deduct from their state income tax 50 percent of gifts made to institutions of higher education in the state, up to a limit of \$50. Corporations have the same privilege, up to a limit of \$500.

It should be noted that the Indiana tax credit applies only to *gifts*, not to tuition payments. Apparently, no state government as of 1972 had enacted a law permitting tuition payments to be a credit against income taxes.

It was estimated initially that the Indiana tax credit provision would cost the state about 20 million dollars in tax revenues in the first full year of operation. Instead, only about 8 percent of the taxpayers took advantage of the tax credit, and the claims amounted only to \$430,000. It would appear that the tax credit privilege was utilized mainly by those already making contributions to Indiana's colleges and universities. In the second year, claims for tax credits dropped to \$264,000; but, in the third year, they rose to nearly \$1,130,000 because of a 1971 amendment extending the privilege to gifts made to university foundations.

Interestingly enough, in practice, the program has benefited primarily Indiana University and Purdue University rather than the private colleges. The public universities have been able to attract gift support, especially for new buildings.

The Wisconsin Proposal

Wisconsin has one of the highest rates of high school graduation in the United States. Yet its rate of enrollment in post-secondary education is below the national average. The existing pattern of state government financing, which is generally similar to that of most western and mid-western states, has not stimulated broad access to the state's colleges and universities.

In 1970, the Governor's Commission on Education recommended a new proposal for state financing. This proposal was worked out by two University of Wisconsin economists, W. Lee Hansen and Burton Weisbrod.* The recommended plan focuses on a portable grant or voucher system, which would require full-cost pricing and full grants for all students demonstrating need, thus easing access and providing equity and diversity. The plan is still under consideration but has been opposed by the state university, which has feared a diffusion of funds and leveling of support; with the uncertainty about future federal policy, the university also has urged a delay of action until the direction of 1972 legislation could be known. In addition, the state legislature was apparently reluctant to raise the tuition charges to students because of the possibility of unfavorable voter reaction in 1972 by both student and other voters.

Hansen and Weisbrod intended that the voucher plan should apply only to undergraduate and not to graduate instruction. The voucher awards will provide increased financial resources to students from lower income families, will permit students a free choice between public and private institutions of higher education, and will halt or reduce state subsidy of students from higher income families.

The Wisconsin plan calls for a standard student expense budget of \$2,100 as of 1969-70: \$1,400 for tuition, \$100 for books and supplies, and \$600 for maintenance. Student earnings, expected family contribution, and other grants would then be deducted from this standard budget. The difference would be the amount paid each individual student. It was estimated that upon the basis of anticipated enrollment increases, the total cost of this plan in 1971-72 would have been between 90 and 95 million dollars. The estimated direct subsidy to public institutions of higher education that same year would have been over 123 million dollars. The Governor's Commission on Education recommended that a minimum grant of \$500 be given to every Wisconsin student in post-secondary education, which would have increased the costs of the program to the level of 123 million dollars.

In terms of its impact upon students, the Wisconsin plan projects post-secondary enrollments by family income level as follows:

*cf. W. Lee Hansen and Burton A. Weisbrod, "A New Approach to Higher Education Finance," in M.D. Orwig, ed., *Financing Higher Education: Alternatives for the Federal Government* (Iowa City, Iowa: The American College Testing Program, 1971), p. 117.

Family Income	Percent Distribution of Student Families
Under \$5,000	16
\$5,000 to \$7,499	19
\$7,500 to \$9,999	20
\$10,000 to \$12,499	13
\$12,500 and over	32

A student from a family with net income under \$5,000 would be expected to earn \$350 toward his or her expenses, no family contribution would be expected, and a voucher award of \$1,750 would be received. This student would gain \$600 more than under current financing arrangements. For a student from a family with net income above \$20,000, the tuition charge would be \$1,400 rather than \$450 and so his or her higher education would cost \$950 more than at present.

The Income Contingent Loan and the Ohio Plan

In March, 1971, Governor John J. Gilligan recommended to the Ohio General Assembly legislation which would obligate every Ohio student to repay to the State of Ohio the full amount of the direct state subsidy to that student upon the basis of future income. If the student did not receive sufficient income as projected by the plan, then the subsidy would not be repaid or would be repaid only in part. And no student would be obligated to pay more than the amount of the state subsidy he or she received. The Governor projected the possibility that in 20 to 30 years the State of Ohio would thus have a substantial new source of income for the support of public institutions of higher education.

Under the so-called Ohio Plan, no immediate new source of income would be provided for the state's public institutions of higher education, and the current pattern of financing public higher education in Ohio would remain unchanged. The purpose of the proposal was to impress upon the student the magnitude of the social investment in his or her higher education and to obligate the student to repay that social investment if his or her future income so justified repayment.

The Ohio Plan was modeled in part upon income contingent loan plans which had recently been introduced at Yale and Duke Universities, both private institutions. In these instances, increased tuition charges to students might be paid by the student in the form of an income contingent loan, a current loan to be repaid with interest upon the basis of future earnings. The financing of these loans was presumably provided through the endowment funds of the universities.

Before retiring as Chancellor of the Ohio Board of Regents in the summer of 1972, John D. Millett put forth a modified version of the Ohio Plan. His proposal called for an increase in student charges at the state universities from \$610 an academic year at the undergraduate level to \$1,200, and from \$1,200 to \$2,100 an academic year at the graduate and

graduate professional level. Student charges at two-year campuses would be reduced to \$450 an academic year. At the same time, the state grants to undergraduate students from low income families would be increased to a maximum of \$1,200 a year. Undergraduate students from families with incomes above \$12,000 a year would be offered the option of an income contingent loan as the means of paying the \$600 increase in tuition. In addition, any Ohio resident enrolled as an undergraduate student in a private college or university would be eligible to receive an income contingent loan in the amount of \$600 per academic year.

Under the proposal of Chancellor Millett, an undergraduate student entering into an income contingent loan would begin to repay his or her obligation five years after the completion of formal higher education and continue for the next 15 years. The rate of repayment until the entire debt was extinguished would be as follows:

Annual Income	Yearly Repayment
\$7,000 to \$9,999	1%
\$10,000 to \$14,999	2%
\$15,000 to \$19,999	3%
\$20,000 and over	4%

It was expected under this proposal that some students would make only partial repayments and others would make complete repayments. The plan was to be administered by a state student loan agency, and some state subsidy to the loan agency for the debt service of the agency was anticipated.

The plan contemplated that the State of Ohio would continue to subsidize undergraduate and graduate instruction, as well as certain other higher education programs in research, public service, and student aid. At the same time, the proposal contemplated a substantial increase in higher education expenditures per student, but only a modest increase in the total state appropriations for higher education in 1973-75.

Summary

Confronted with increased demands for state support of public higher education as well as with other demands for increased state expenditures (particularly for welfare and health care), and faced with a reluctance on the part of state taxpayers to provide the financial resources for these expenditures, state governments have begun increasingly to experiment with new ideas about financing the public commitment to higher education.

State governments have also become concerned about the impact of public higher education upon private higher education. During the 1960's, nearly 80 percent of the enrollment growth of the decade (a doubling) was accommodated by the public institutions of higher education. State governments began to hear about price competition and began to encounter requests for state subsidy of students in private institutions of

higher education. The administrative officers of public institutions tended to be only moderately concerned, if at all, about the fate of private higher education. State government officials tended to be much more concerned, in considerable degree because of their concern with future state expenditures.

STUDENT LOANS

The whole subject of student loans deserves further attention. Both the advantages and the limitations of loans to students need careful consideration. Furthermore, since the enactment of the National Defense Education Act of 1958 by the federal government, loans to students have become an important means whereby students have met their direct costs of post-secondary education.

State governments have become involved in student loan programs in two ways. Following in the footsteps of the federal government, state governments, too, have been active in the student loan field, usually by means of guaranteeing student loans entered into by commercial lending institutions (banks, savings and loan associations, and other lenders). In addition, state governments have been asking whether the ready availability of loans does not warrant increases in the tuition charges to students.

Low-cost, long-term loans to students, to be repaid after a student has completed higher education, tend to shift a part of the direct student cost of higher education from their families to the students themselves. Often the family contribution to higher education costs is borne from current income or from accumulated savings. The student loan may fully or partially relieve this family cost burden and postpone payment to a later date to be paid over a longer period of time. The student loan may then be compared to the way in which a family invests in a home. It should be noted, however, that the student, not his or her family, is expected to repay the investment.

There is, of course, a basic assumption in the student loan approach to financing the student's cost of higher education. This assumption is that higher education will pay off, that the student will have a job advantage and an income advantage after having acquired a college degree. If this employment assumption does not hold, if the student drops out of college, or if the graduate rejects an employment advantage, then the student loan may not be repaid and the default must be financed in some fashion.

More recently, the proposal for income contingent loans has offered some new features in financing the student costs of higher education. The general student loan is an obligation which the student must repay regardless of his or her future income circumstances. The income contingent loan is a conditional obligation which the student must repay only if his or her income permits it. The income contingent loan is a mechanism for

providing a state government subsidy, at least in part, only to those students whose future income is not enhanced by increased earning power, rather than providing a subsidy to every student enrolled in public higher education.

From the point of view of state governments, a fiscally sound student loan program, properly designed, financed, and administered, offers several advantages. The increased costs of student instruction can be transferred in whole or in part to students without increasing the current economic barriers in access to post-secondary education. At the same time, the rising costs of higher education to the state taxpayer can be reduced or even eliminated. The cost of student defaults in loan payments is likely to be less than the cost of a continually rising level of state subsidy per student for all students in public higher education.

It must be emphasized once again, however, that student loans are not a universal solution to the financing problems of higher education institutions and of students. Student loans are probably inappropriate for students from low income families, first, because such students may not have access to lending institutions and, secondly, because the sacrifice in foregone income for such students and their families is a heavy one. Loans seem to be most useful for students from middle income families.

The National Defense Education Act of 1958 authorized a program whereby the federal government could make capital grants of loan funds directly to both public and private institutions of higher education. State governments entered into this arrangement only to the extent that they were called upon to provide the ten percent matching in institutional funds for these national defense student loan funds. The sudden popularity of student loans encouraged state governments, as we have said, to establish their own mechanisms for student loans, which were almost always a form of a student loan guarantee to the lending institutions which actually made the loans. Then, in 1965, the federal government decided to give state governments additional incentives to create such lending arrangements.

The Federal Guaranteed Student Loan Program

The Higher Education Act of 1965 authorized the establishment of a federal government guaranteed student loan program. The federal law authorized the Commissioner of Education to encourage state and private non-profit agencies to create or expand loan insurance programs for students enrolled in eligible post-secondary educational institutions, to provide a federal loan insurance program for students in those states not having access to a state or non-profit program of loans, to pay a portion of the interest to the lender on behalf of the student borrower, to reinsure a portion of each loan guaranteed by a state or non-profit agency, and to pay a "special allowance" to lenders making loans to students.

As of 1972, twenty-five states and the District of Columbia had established agencies to guarantee loans to students by banking and other lend-

ing institutions. Twenty-one of these agencies operate the program directly, as in the instance of the New York Higher Education Assistance Corporation, a public agency created by act of the legislature as early as 1957. Five states have contracted with United States Aid Funds, Inc., a private non-profit agency, to administer their programs. And in two states, Texas and Wisconsin, a state agency makes loans directly to students. In the remaining states, the Commissioner of Education enters into agreements directly with lending institutions to insure repayment of loans made to students.

Federal government advances are provided to establish or strengthen the reserve funds of approved state government loan programs. These advances are non-interest bearing and must be repaid as and when the Commissioner of Education finds that the maturity and solvency of the state reserve fund so permits. Most states have a reserve fund amounting to 10 percent of the outstanding volume of loans, although reserves have varied from a low of 3 percent to a high of 20 percent.

State and private non-profit agencies contract with the Commissioner so that 80 percent of the loans guaranteed by the agency are reinsured by the federal government. Since federal reinsurance reduces the state agency's potential liability for defaults to one fifth of the outstanding balance in student loans, the agency's reserve fund will support the guarantee of loan balances five times as much as would otherwise be the case. Reinsurance agreements had been made as of 1972 with 23 state governments and the District of Columbia.

Currently, there are some 3,895 colleges and universities in the United States and overseas eligible to enroll students who have borrowed funds under the guaranteed loan program. In addition, there are another 3,451 eligible vocational, technical, trade, and business schools, proprietary, public, and non-profit.

Loan procedures are quite carefully prescribed. A student, full-time or part-time, applies for a loan at a lending institution which has volunteered to participate in the program. The student and the head of his or her family complete the required sections of the application form, including information about adjusted family income. The application is then sent by the lending institution to the eligible college or university which must certify that the applicant is enrolled as a student or has been accepted for enrollment, that the applicant is in good academic standing, that his or her estimated educational expenses are reasonable, and what the amount is of other financial assistance made available by or through the college or university.

If the lender agrees to make the loan, the application is sent to the guaranteeing state or to the non-profit agency for a commitment to insure the loan. The amount borrowed is then paid directly to the student, or the check may be sent to the college or university for delivery to the student.

Under the law or regulations of the guarantee agencies, the maximum amount a student may borrow, the interest rate, and the terms of repay-

ment vary. Under all the programs, however, the maximum amount may not exceed \$2,500 per academic year, and the total aggregate borrowing may not exceed \$7,500 for a four-year baccalaureate or \$10,000 for graduate school.* The maximum rate of interest payable on a loan may be determined by the Commissioner of Education from time to time; currently it is 7 percent. The repayment period for a student loan may not be less than 5 years nor more than 10 years, and may begin not sooner than 9 months nor more than 12 months after a student ceases to be enrolled on at least a half-time basis. Principal payments need not be made while a borrower is a member of the armed forces, a volunteer in the Peace Corps or VISTA, or a full-time student in an eligible institution of higher education.

The federal law specifies that no student may be denied a loan subject to guarantee or reinsurance on the basis of family income or a finding of absence of need. If the adjusted family income is less than \$15,000 a year, the Commissioner of Education is authorized to pay all or a portion of the interest on a loan on behalf of the borrower while he or she is enrolled in school. The Education Amendments of 1972 substituted a "need test" for adjusted family income in providing this interest subsidy, but the new regulations aroused such opposition that the Congress postponed the effective date of the new provision of law until March 1, 1973, in order to provide time for a reconsideration of this whole matter.

If the adjusted family income is \$15,000 a year or more, the student is expected to pay interest but not the principal on his or her loan while enrolled in higher education. As noted above, repayment of the principal begins only after the student leaves school.

If a student fails to make an installment payment when due, or fails to comply with any other terms of his or her obligation, and if this failure continues uncorrected for 120 days, the loan may be declared in default. The federal government and the state guaranteeing agency will then pay 100 percent of the principal outstanding at the time the loan enters into default. Some state laws provide, however, for only 80 percent or 90 percent guarantee of the principal. This has been done to encourage lending institutions to have a personal stake in the quality of the loan. In the event of the death or permanent total disability of the borrower, the Commissioner of Education pays the total amount outstanding.

The federal law also authorizes the Commissioner of Education to pay an interest supplement if economic conditions are such as to threaten to impede the program and the 7 percent rate of interest is less than equitable to borrowers. Many lending institutions have complained that there is a considerable amount of paper work in connection with student loans and that the permissible interest rate is less than that obtained on most unsecured personal loans. The maximum supplementary rate of return is 3

*The \$2,500 annual maximum permitted by the Education Amendments of 1972 has been suspended until March 1, 1973.

percent and is calculated upon the basis of the average quarterly unpaid principal balance on all student loans disbursed after August 1, 1969. This special allowance in the maximum amount was being paid in 1972.

The National Experience

As of the end of the third quarter of 1971, nearly 3.5 million student loans had been made under the federal government guarantee, with an original principal obligation of nearly 3.2 billion dollars. Of these loans, 81 percent had been made by commercial banks, 8 percent by savings banks, and 4 percent directly by state government lending agencies. The majority of the borrowers had come from middle income families; the adjusted family income of 50 percent of the student borrowers was between \$6,000 and \$15,000 a year. Only about 4 percent of the borrowers came from families whose income exceeded \$15,000 a year. The cumulative default ratio on guaranteed loans for the nation as a whole came to 4 percent.

The New York Higher Education Assistance Corporation operates the largest single student loan guarantee program in the nation. By June, 1972, the NYHEAC estimated that it would have guaranteed one billion dollars in student loans in nearly one million loans to about 500,000 borrowers. 75 percent of the borrowers had enrolled at institutions within the state and 36 percent of these borrowers enrolled in public institutions. Of the loans held by students of middle income families, a slightly lower percentage was held than was true for the nation as a whole. The adjusted family income for 47.5 percent of the borrowers was between \$6,000 and \$15,000; some 4.6 percent of all borrowers came from families with incomes above \$15,000 a year. The cumulative default ratio on students subject to repayment was 4.6 percent, although actual loss of principal was expected to be under 3 percent. The New York Corporation found that students in trade schools and schools of cosmetology and students entering college from an educationally disadvantaged background constituted the groups with more than a normal risk of default.

The State of Texas has been the second largest lender under the federal program through a direct state government agency authorized by a constitutional amendment approved by the voters in 1966. The loan funds have been provided through the sale of State of Texas College Student Loan Bonds, of which some 115.5 million dollars worth had been sold in 1972. These bonds are general obligation bonds. As of March 31, 1972, a total of 245,523 loans had been made to 78,990 students in the amount of \$91,441,640. Of this principal, about 10 million dollars had been repaid. The net effective rate paid by the State of Texas on student loan bonds ranged from a low of 3.77 percent to a high of 6.25 percent in 1970. Some 3.08 percent of the student loan portfolio had been turned over to the State Attorney General as of 1972 for collection as being in default.

Income Contingent Loans in New York

In 1972, the State of New York enacted legislation creating a new kind of loan program for students. The law combines both a deferment of tuition payment and a repayment upon the basis of future income. The arrangement is available to all students, regardless of the state of origin, enrolled in a New York institution of higher education, public or private.

Under the New York law, any student in a New York institution may sign a note payable to the institution for tuition, room, and board in an amount not to exceed that eligible for reinsurance under federal law. Currently, that amount is \$2,500 a year, \$7,500 over the period of baccalaureate education, and \$10,000 including graduate school. The New York college or university accepts the student's note in full or in partial payment of the costs of enrollment. The institution then contracts to sell the student notes to an agency of state government. Thus, the institution will receive in current income the face value of the notes signed by its students.

The New York state agency designated by the law to administer this program is the State of New York Mortgage Agency. Since this agency was engaged in the purchase of home mortgage loans from banking institutions, the legislature apparently decided that the Mortgage Agency was the appropriate state body to purchase and hold student notes. Under existing state and federal laws, the notes of the Mortgage Agency will qualify for 100 percent guarantee by the New York Higher Education Assistance Corporation and for 80 percent reinsurance by the federal government. In effect, then, the program shifts 80 percent of the risk of any net loss from default to the federal government.

The State of New York Mortgage Agency will obtain its capital with which to purchase student notes by the sale of agency revenue bonds on the open market. Because the Mortgage Agency is an agency of the state government, its bonds under current provisions of law will pay interest which is exempt from federal government income taxation.

Participation in this program is entirely voluntary on the part of a New York college or university. No institution is under any obligation to ask students to sign notes in payment of institutional charges, or to sell these notes to the State of New York Mortgage Agency. It is possible under the law, however, for the Mortgage Agency to buy student notes from banking institutions and even directly from students.

Because this lending program is geared to federal law, the student will pay an interest rate no higher than seven percent on such notes, and, if the student's adjusted family income is under \$15,000 a year, the student will pay no interest while he or she is enrolled in school. Repayment of the note will commence nine months after enrollment has ended. The principal is to be repaid over a ten-year period. The law authorizes the State of New York Mortgage Agency to program the periodic payments to start at a relatively low dollar amount and gradually to increase the size of the payment in step with the predicted income of the borrower.

In addition, the State of New York Mortgage Agency is authorized within the limits of available funds to suspend repayment of loans until a borrower reaches a specified income level. The Mortgage Agency may also reduce or suspend a borrower's schedule of payments if such payment would exceed a certain percentage of the borrower's income. It is these two features which, in effect, make the student note program similar to an income contingent loan program.

The income contingent features of the program will be funded by state grants to the Mortgage Agency, by any federal grants which might become available, by private gifts, and by any surplus which the agency may realize between the interest rate at which it sells its student bonds to the investing public and the seven percent interest rate charged to students. According to its financial advisors, the State of New York Mortgage Agency should realize a spread of at least one percent between its effective interest rate and the interest charge to students. This would mean that on each 100 million dollars of bond sales and student note purchases, the Mortgage Agency should obtain a surplus of one million dollars. There are administrative costs, also, to be paid from this surplus.

It seems likely that the income contingent aspects of the New York plan can be made effective over a period of time only with state government subsidy, or with federal government subsidy if this should be authorized. At the same time, it is evident that the State of New York has, in effect, provided to students an opportunity to obtain an income contingent loan, and has offered to both the private and the public institutions of higher education in New York a new vehicle of student financial assistance. Unfortunately, it is too early as of the autumn of 1972 to assess the effectiveness and utility of this new program.

The Federal Student Loan Marketing Association

The Education Amendments of 1972, approved by President Nixon on June 23, 1972, authorize the creation of a new federal government activity to be performed by a United States government sponsored corporation. The work of the corporation will be managed by a board of directors of 21 members, seven of whom will be elected eventually by participating higher education institutions, seven of whom will be elected by participating financial institutions, and seven of whom will be appointed by the President subject to Senate confirmation. This new corporation is designated the Federal Student Loan Marketing Association.

This association is authorized to make advances on or to purchase student loan paper which has been insured by the Commissioner of Education or by a state agency with which the Commissioner has an agreement. The purpose of this arrangement is to provide a secondary market for student loans. Many banking institutions had complained that the volume of student loans was becoming sufficiently large to tie up a considerable amount of a bank's assets in fairly long-term loans which were not necessarily the most profitable loans from their point of view. By creating this

secondary market for student loan paper, the federal government has moved to establish a new source of student loan capital. The capital of the Federal Student Loan Marketing Association will be provided by the sale of its notes and bonds to the U.S. Treasury.

As of the autumn of 1972, it is again too early to determine what impact this secondary market arrangement will have upon student loan activity in the United States.

Summary

An extensive array of legislation has been enacted by state governments and by the federal government to assist students in financing the direct costs of their post-secondary education through loans. Banking institutions have been encouraged and protected in making loans to students. Students have been given special privileges in terms of interest rates and of repayment schedules for such loans. Students from low income families have been relieved of the obligation to pay any interest charges while enrolled in a college or university. And New York State has moved to provide an income contingent feature to its student loan arrangements.

Thus, state governments and the federal government have undertaken to assist students in meeting their direct costs of higher education. And, the economic barriers to access to higher education even at the no tuition or low tuition public institutions of higher education have been acknowledged.

At the same time, these loan programs have undoubtedly had an impact upon state government policies affecting the financing of public institutions of higher education. All of these arrangements, state and federal, tend to encourage state governments to place a larger share of the instructional costs of higher education upon students.

OPTIONS FOR STATE GOVERNMENTS

Administrators in public institutions of higher education insist that they must continue to receive increased income in order to carry out the mission assigned or developed for each state college or university. Even if these incremental cost increases were to be maintained at the level recommended by the Carnegie Commission on Higher Education—inflation plus not more than 2.5 percent per year—the burden upon state government tax resources could continue to be substantial during the decade of the 1970's. This would especially be a problem if enrollments should increase another 50 percent by 1980 over 1970 (although, given present projections, such an increase is unlikely), and if private colleges and universities should falter and throw some or all of their enrollment into the public sector.

Public institutions of higher education must confront cost increases, beyond the imperatives of inflation, for several reasons. Public higher education in the United States has tended to spend less per student than private institutions and has sought to narrow the qualitative implications of this gap. Public institutions enroll a diverse student body with varied needs and interests. Students themselves are demanding more services and more individual attention. Public institutions have had to increase their high cost programs of instruction, as in medicine and the other health sciences. Public institutions are called upon to perform increased public services. And, the faculties in public institutions observing the salary gains in other areas of governmental activity—transportation, sanitation, police, fire, and teaching—will not readily sit by and see their own salary situations deteriorate.

Undoubtedly, public institutions of higher education could achieve some economies and efficiencies in operation. The integration of the costs and financing of research and public service and the determination of reasonable standards of faculty productivity still demand careful attention. But economies and efficiencies, important as they are, will not provide the income needs for public institutions of higher education in the 1970's.

If state governments are to be responsive to the reasonable expectations of public institutions for incremental income, they confront essentially two alternatives. The first is the choice of pricing policy to students. And the second is the financial assistance policy for students. Obviously, the two policy choices are closely related. Indeed, the argument presented

here is that the two policy choices must be considered as parts of an integrated whole.

As pointed out earlier, most state governments have adopted the conglomerate model for their current pricing policy. They have generally sought to divide the instructional costs at public institutions of higher education between students and state taxpayers, and in this division of burden they have generally sought to keep the tuition costs to students at a relatively modest level, often somewhere between \$450 and \$600 for an academic year.

This level of charges has tended to provide about one quarter to one third of the instructional cost of a general baccalaureate program and a good deal less toward the cost of many professional baccalaureate programs and of all graduate and graduate professional programs. At the same time, this level of tuition charge has been only a small part of the total direct cost of higher education for the student and his or her family, and still a smaller part of the cost if some estimate of foregone income is added to the student's share. Even so, this relatively modest tuition charge is a major economic barrier to access to higher education for students from lower income families and may be an encouragement to students from higher income families to prefer public institutions to private institutions of higher education.

State governments have a choice in providing appropriation support to public institutions of higher education. They can: (1) provide such incremental and expansion income as seems justified from state tax resources; (2) divide the incremental and expansion income on a sharing basis between student and state taxpayer; and (3) allocate the entire incremental and expansion income to the student. There is no definite or logical basis for making this choice. The response to the situation is apt to be a pragmatic one made in the light of a number of political concerns: the attitude of state taxpayers toward higher education, the attitude of officials and interest groups about other state government expenditure needs, and the attitude of the public generally about the need for and utility of higher education.

There have been some individuals who have argued that, on the average, the instructional costs of public baccalaureate programs ought to be shared on a 50-50 basis between students and state taxpayers. The only basis for such a proposal is that it has a nice kind of equal distribution sound to it, that it provides increased income at the moment to public institutions, and that it reduces the burden upon state taxpayers at the moment. It has also been suggested that at the graduate and graduate professional level, the distribution of instructional cost might be 40 percent to the student and 60 percent to state taxpayers. Again, the rationale for such a proposal is simply its appearance of an equitable division of costs upon some kind of fixed basis.

There have also been proposals for variable tuition charges at public institutions; students would pay 25 percent of the cost for lower division

instruction, 50 percent of average upper division costs of instruction, and 40 percent of the average costs of instruction at the graduate and graduate professional level. (Other states, including Washington, are now proposing higher tuition for graduate work than for upper division work.) As explained earlier, the argument for such an arrangement is that the student risk is greatest in the first two years, that student persistence and prospect of an income advantage are substantially higher in the last two years of a baccalaureate program, and that graduate instruction may entail greater social advantage than upper division instruction.

If tuition charges to students are increased, or even if they are maintained at levels of around \$600 an academic year, then state governments need to give particular attention to the income needs of individual students, and particularly to the income needs of students from lower income families. This kind of attention is essential if access to higher education is to be afforded to students of academic ability and motivation who have limited family resources for post-secondary enrollment.

The choices available for student financial assistance include:

1. scholarships and fellowships
2. grants
3. work-study
4. direct loans
5. guaranteed loans

Presumably state governments and public institutions of higher education have a current inventory of their resources for student aid, a record of the family income levels of their undergraduate and graduate students, and an estimate of financial need based upon direct costs to students and upon student resources for meeting these costs.

It must be repeated in this connection that the federal government since 1958 has played an increasing role in the provision of varied grants and other resources for student financial assistance. This federal government role, including the provisions of law included in the Education Amendments of 1972, has encouraged state governments to give expanded attention to financial assistance to students based upon need. At the same time, an indirect effect of the federal role has been to encourage the conglomerate model of state government pricing, including an increased sharing of instructional costs by students. If funding is provided for that portion of the 1972 Amendments that provides for need-based grants of up to \$1,400, or half of the total cost of education to the student, there will be enormous pressure to raise student charges in order to take advantage of these federal funds.

In each state, calculations can be made about the impact of various choices and combinations of choices upon the expenditure patterns of public institutions of higher education, upon the tax burden of state taxpayers in support of higher education, and upon student financial resources for meeting the direct costs of higher education. Among these

choices and among these cost implications, a state government must make its decision about the financing of higher education.

It seems likely that, at the present time, state government decision makers will find that when the costs of alternative choices are calculated, for the immediate future (of one to four years), the increased costs of higher education to the state can be reduced by emphasizing financial assistance to students rather than by undertaking to meet all the increased costs through state taxation. Moreover, the concern with equity in the access to higher education for students from lower income families can be better served through increases in student financial assistance than through increased appropriations to public institutions as such.

Finally, once more it is essential to insert the reminder that more than the fates of public institutions of higher education and of student access to higher education are involved in these options. The fates of *private* institutions of higher education and of the students enrolled in these institutions are also at stake. The theoretical argument for private higher education revolves around its role in setting higher education standards, in providing diversity and freedom of choice to students in deciding the kind and quality of higher education to undertake, and in carrying a part of the total load of higher education enrollment. If private colleges and universities were to disappear or to falter, their contributions in the public interest would be lost and the public burden would be increased. This concern, too, cannot be absent from the decision about choices which must be made by state governments in meeting their responsibilities for higher education opportunities and services.

APPENDIX: STATE PROFILES

STATE PROFILES (1970 - 1971)

STATE	FTE ENROLLMENT		Percent Private Enrollment	Nat'l Rank	% of Students Enrolled in Pub. Inst. to Total Pop.	Tuition Range ⁽¹⁾ Public Inst. (\$)	State Approp. for Operating Expenses (\$)	State Approp. ⁽²⁾ for Student Aid (\$)
	PUBLIC	PRIVATE						
CALIFORNIA	741,314	105,274	12.1%	(42)	3.83	0-150-450	817,126,000	23,813,000
COLORADO	88,173	13,093	12.9%	(40)	4.03	153-293-426	110,624,000	8,119,000**
ILLINOIS	239,895	108,639	31.2%	(12)	2.17	(0 to 420) 0-349-496	477,546,000	33,102,799
INDIANA	110,146	47,935	30.6%	(14)	2.11	(0 to 680) 0-527-700	173,979,000	3,140,000
MICHIGAN	258,479	44,311	14.3%	(37)	2.94	300-375-568	343,691,000	12,867,000
MINNESOTA	107,799	29,021	13.2%	(39)	2.83	326-393-522 (0 to 550)	143,448,000	1,475,000
NEW YORK	331,554	276,991	45.3%	(4)	1.81	0-276-831	745,529,000	70,300,000
OHIO	226,565	81,867	26.1%	(18)	2.10	300-450-660	260,690,000	8,500,000
OREGON	80,952	12,503	13.4%	(38)	3.84	90-136-504	95,901,000	530,000
PENNSYLVANIA	182,457	147,790	44.6%	(5)	1.55	330-630-710	352,787,000	51,400,000
WASHINGTON	125,657	17,909	12.4%	(41)	3.70	210-360-432	190,903,000	390,000 (1,444,127)*
WISCONSIN	140,497	27,520	16.4%	(33)	3.17	0-432-508	181,237,000	3,363,000
U.S. AVERAGES			26.01		2.42			

(1) Range indicates approximate yearly tuition and fees for Comm. Colleges - State Colleges - Universities for 1970-71.

(2) State dollars for competitive/non-competitive aid to undergraduate state residents for attendance at public or private post-secondary institutions. [Does not include tuition waivers, grants for specific career preparation, or military service related benefits. California figure as reported adjusted to include education opportunity grants.]

* () is the figure for 71-72 - Need Grant: \$594,127 + Tuition Supplement Program: \$850,000 (for use at private institutions only).

** For use at public institutions only (figure for year 71-72).

STATE PROFILES (1970 - 1971)

Student Aid as % State Approp. for Operating Expenses	State & Local		State & Local		Per Capita/ Personal Income (\$)		Personal Income		Population
	Approp./Student (\$)	Nat'l Rank	Approp./\$1000 Pers. Inc.	Nat'l Rank	Personal Income (\$)	Nat'l Rank	Personal Income (\$)	Personal Income (\$)	
2.9%	1567	(19)	14.67	(9)	4,426	(9)	88,825	19,994,000	CALIFORNIA
7.4%	1343	(33)	14.01	(13)	3,816	(13)	8,468	2,225,000	COLORADO
7.0%	2457	(3)	11.83	(22)	4,502	(22)	50,131	11,137,000	ILLINOIS
1.73%	1597	(17)	10.20	(32)	3,781	(32)	19,679	5,208,000	INDIANA
3.75%	1500	(23)	11.91	(21)	4,059	(21)	36,124	8,901,000	MICHIGAN
1.03%	1335	(36)	11.15	(26)	3,824	(26)	14,580	3,822,000	MINNESOTA
9.4%	2718	(2)	11.57	(24)	4,769	(24)	87,111	18,260,000	NEW YORK
3.3%	1403	(27)	8.45	(43)	3,972	(43)	42,382	10,688,000	OHIO
.56%	1250	(39)	13.70	(15)	3,705	(15)	7,777	2,102,000	OREGON
14.6%	1930	(7)	7.79	(46)	3,927	(46)	46,329	11,817,000	PENNSYLVANIA
.39% (.74%)*	1588	(18)	14.09	(12)	3,993	(12)	13,671	3,414,000	WASHINGTON
1.8%	1758	(10)	19.15	(2)	3,693	(2)	16,351	4,433,000	WISCONSIN
	1625		11.34		3,915				U.S. AVERAGES

*** Comparative figure for 1971-72 based on appropriations of \$196,649,000. It is felt that this latter figure more accurately indicates the state's participation in student aid.

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